

Review of the Accounting Cycle

Accounting Cycle

- Series of accounting activities included in recording financial information for a fiscal period

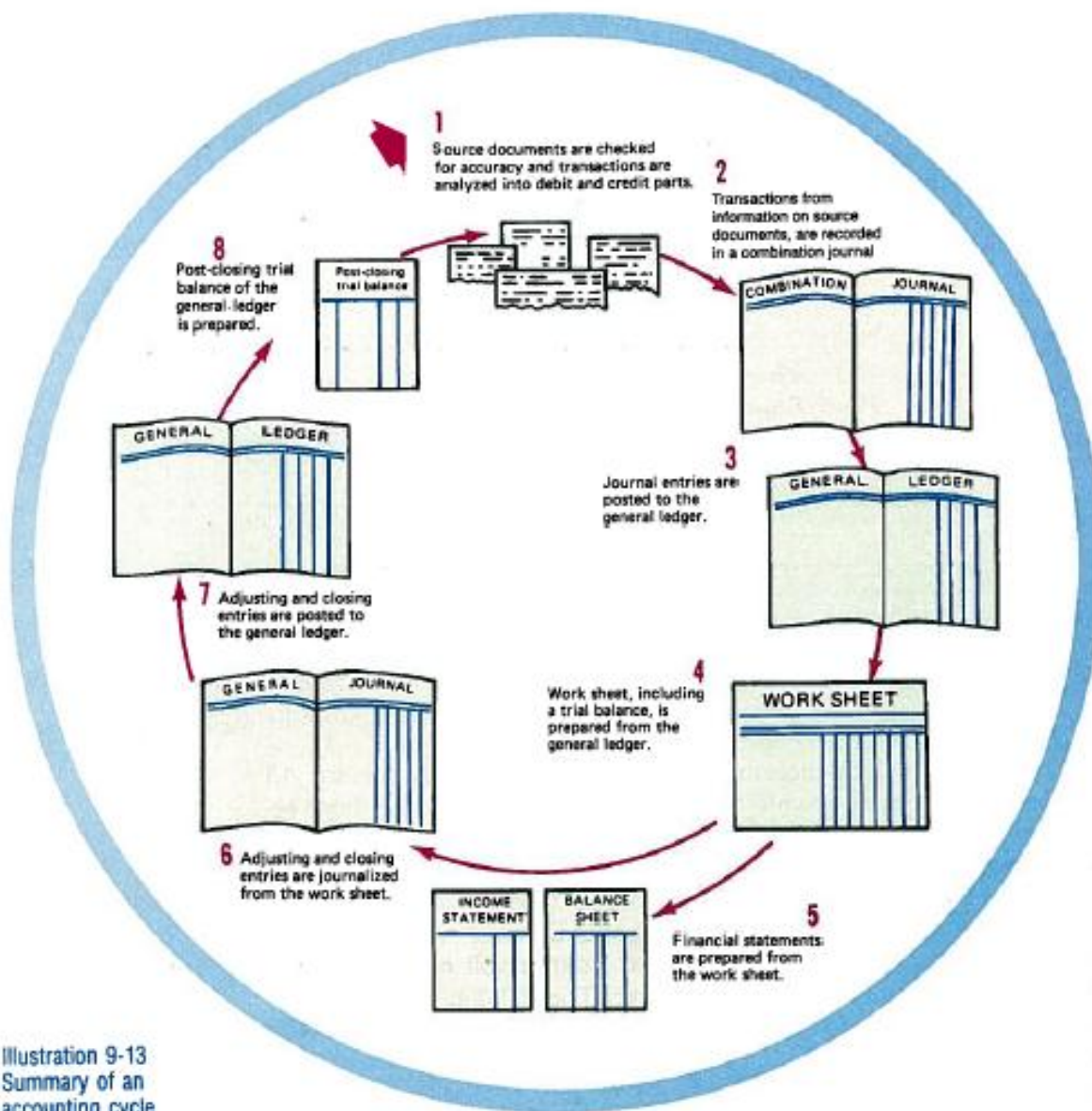


Illustration 9-13
Summary of an
accounting cycle

Delbello, Aurelio, Miles Mumford, Ray Schafer, Century 21 Accounting: Introductory Course, Third Canadian Edition, Nelson Canada, © 1991, p. 158.

The diagram above shows the accounting cycle for a sole proprietorship service business. The accounting cycle for a merchandising business (partnership) is very similar, but additional steps are involved.

- Source documents are still checked for accuracy and transactions are analyzed into debit and credit parts then recorded in a combination journal.
- Journal entries are then posted but not just to general ledger accounts but also to vendor and customer accounts.

- A worksheet is prepared as before so financial statements can be prepared by additional financial statements are completed.
- Adjusting and closing entries are completed in a combination journal instead of a general journal, then posted so all temporary capital accounts are closed in preparation for the business transactions of the next fiscal period.
- Finally, a post-closing trial balance is prepared to prove the business has maintained the equality of the accounting equation.

Accounting Equation:

$$\mathbf{Assets = Liabilities + Capital}$$